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DEC 9 - 1997

### Reserve Prices or Minimum Opening Bids for LMDS Auction

DA 97-2224

as modified by

DA 97-2420

**REPLY COMMENTS OF WEBCEL COMMUNICATIONS, INC.**

**WebCel supports the Commission's proposal for a minimum opening bid in the**

forthcoming LMDS auction pursuant to the formula set forth in the October 17, 1997 Public Notice. Such minimum opening bids will ensure that only seriously interested wireless service firms will participate from the outset of the auction. In contrast to a reserve price, the absence of initial bids on any licenses will provide immediate feedback as to whether the floor price was set too high. Finally, minimum bids have the potential to shorten the length of the LMDS auction

<sup>17</sup> Report No. AUC-17-B (Auction No. 17), DA 97-2224.

2 Report No. AUC-17-B (Auction No. 17), DA 97-2420.

by eliminating preliminary rounds of “low ball” speculative bids.

Pure speculators and other entities who do not intend to develop a functioning LMDS service will be deterred from entering the auction by the reasonable minimum opening bids proposed by the Commission. In particular, speculators typically obtain licenses not for the purpose of developing commercially viable services for the public benefit, but to warehouse blocks of spectrum with the hope of reselling the still undeveloped license at a later date for a higher price than paid at auction. Not only does this delay the development of the service, it reduces the amount of revenue received by the Commission. Furthermore, requiring minimum opening bids can also foster responsible bidding in accordance with the potential value of the LMDS license.<sup>2/</sup>

Structuring the minimum opening bid as a function of population, with a higher multiple for larger populations for the A Block, is an effective general approach to anticipate the market value of a given LMDS license. It balances the goals of excluding pure speculators and enabling smaller businesses to participate in the LMDS auction by bidding on smaller markets. The disproportionately lower minimum bid for rural areas with low populations reflects the expectation of higher build-out costs and will enable bidders with modest capital to meet the minimum bid requirement. It is also appropriate, in WebCel’s view, that B Block Markets, with substantially narrower bandwidth, are subject to a fixed multiplier that does not vary with the population of the market and thus may be affordable to smaller companies. Larger A Block markets, subject to a higher multiple, will attract those who intend to build networks and draw

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<sup>2/</sup> Speculative investments can also artificially inflate license prices with potentially disastrous effects. For example, in some past auctions, irresponsible bids that were not tied to rational development plans might well have contributed to an upward bidding spiral that ultimately found no support in the capital markets.

bids reflecting their higher per pop value and prevent "Buck-a-BTA" bidders from targeting the larger markets.

The minimum opening bid is a preferred alternative to the reserve price. Both function in the same manner by setting a price below which the Commission will not sell the relevant license. However, the reserve price will require several rounds of bidding to determine whether the value established by the Commission accurately reflects perceived market value of the licenses. In contrast, the minimum opening bid will be tested at the beginning of the first round: if it is set too high there will be no bidders. Thus, the Commission will be able to react by lowering the floor price at the end of the first round. The bidders will then be able to adjust their auction strategy accordingly.

The minimum opening bid will also shorten the length of the LMDS auction, allowing for earlier deployment of LMDS service. Under a system with no minimum bid or with a reserve price, participants require many rounds to reach a price that reflects the licenses' market value. This process is time consuming and only serves to delay the granting of the licenses. By imposing a minimum opening bid, the Commission will be able to accelerate the auction process and allow successful bidders to provide new LMDS services to the public at an earlier date.

For the reasons discussed above, WebCel supports the Commission's proposed adoption

of a minimum opening bid schedule that would deter speculative bidding and foster administrative efficiency in the LMDS auction.

Respectfully submitted,

**WEBCEL COMMUNICATIONS, INC.**

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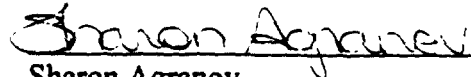
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Dated: December 1, 1997

## **CERTIFICATE OF SERVICE**

This is to certify that on this 1st day of December, 1997, a copy of the foregoing Reply Comments of WebCel Communications, Inc. was served, by First Class Mail, postage prepaid, on each of the persons listed on the attached Service List.

  
Sharon Agranov

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